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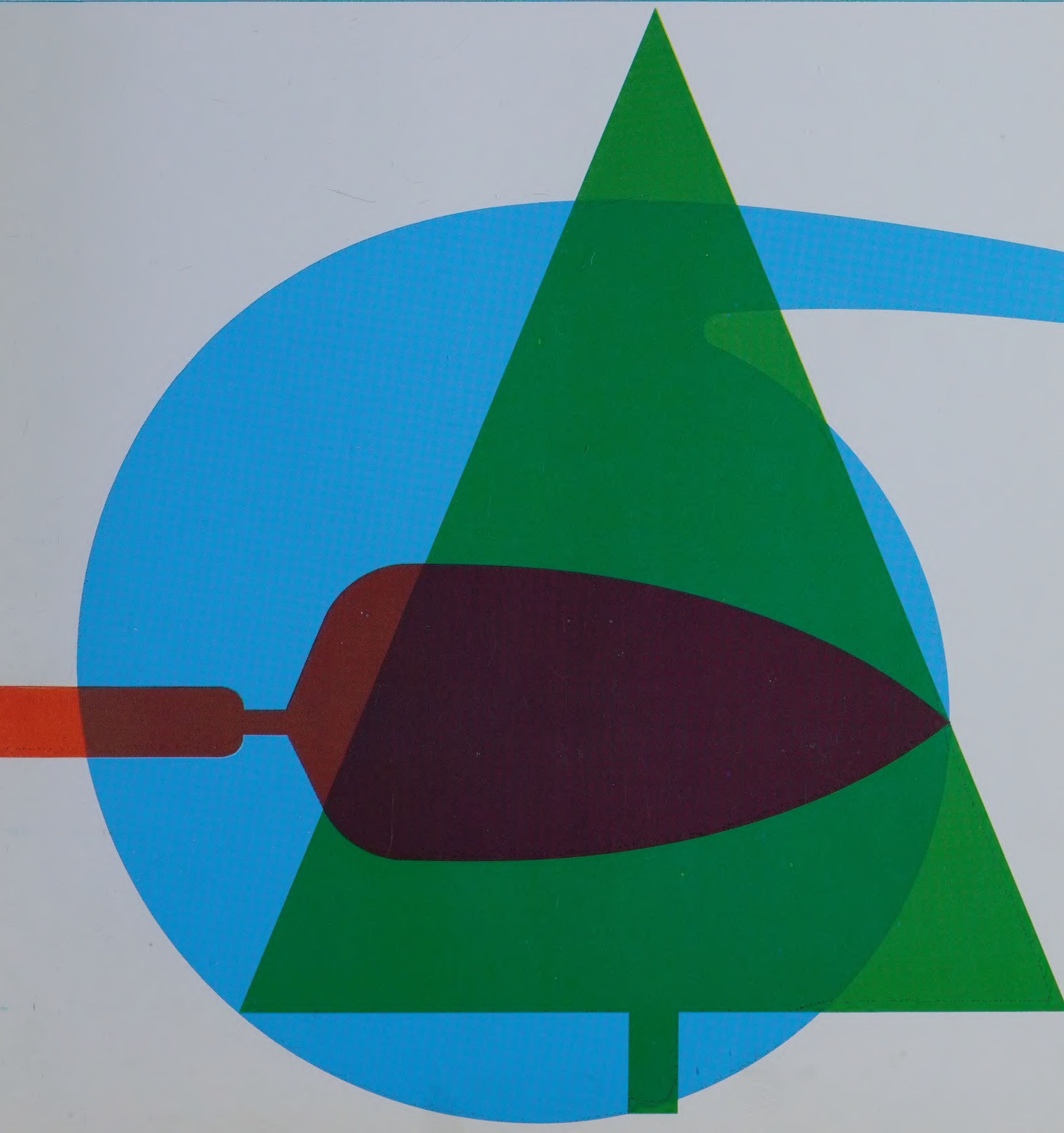
DOMTAR

Annual Report 1968



Domtar Limited
Directors and Officers

Directors

*T. N. Beaupré, Montreal,
Chairman of the Board and President, Domtar Limited

George W. Bourke, Montreal,
Chairman of the Board, Sun Life Assurance Company of Canada

Ralph W. Cooper, Hamilton,
President, Cooper Construction Company Limited

*H. Roy Crabtree, Montreal,
Chairman and President, Wabasso Limited

George H. Dobbie, Galt,
President, The Dobbie Industries Limited

Raymond Dupuis, Q.C., Montreal,
Advocate and Company Director

J. E. L. Duquet, Q.C., Montreal,
Senior Partner in the legal firm of Duquet, Mackay, Weldon, Bronstetter, Willis and Johnston

*A. L. Fairley, Jr., Montreal,
President and Chief Executive Officer, Hollinger Mines Limited

Hon. Geo. B. Foster, Q.C., Montreal,
Senior Partner in the legal firm of Foster, Watt, Leggat, Colby, Rioux and Malcolm

P. M. Fox, Montreal,
Chairman of the Board, The Great Lakes Paper Company, Limited

C. L. Gundy, Toronto,
Chairman, Wood Gundy Securities Limited

Roger T. Hager, Vancouver,
Chairman of the Board and Chief Executive Officer, The Canadian Fishing Company Limited

J. G. Kirkpatrick, Q.C., Montreal,
Partner in the legal firm of Ogilvy, Cope, Porteous, Hansard, Marler, Montgomery & Renault

Camille Lacroix, St. Romuald, Que.
President, Matapedia Company Limited

Roger Létourneau, Q.C., LL.D., Quebec,
Senior Partner in the legal firm of Létourneau, Stein, Marseille, Bienvenue, Delisle & LaRue

*A. B. Matthews, C.B.E., D.S.O., Toronto,
Chairman, The Excelsior Life Insurance Company

*John A. McDougald, Toronto,
Chairman of the Board and President, Crown Trust Company

*Maxwell C. G. Meighen, O.B.E., Toronto,
President, Canadian General Investments Limited

Nathan Pitcairn, Jenkintown, Pa.,
Director, The Pitcairn Company

*Arthur Ross, New York,
Executive Vice-President and Managing Director, Central National Corporation

*J. N. Swinden, Toronto,
General Manager, Argus Corporation Limited

*E. P. Taylor, C.M.G., The Bahama Islands,
Chairman, The New Providence Development Company Limited

J. Thomas Timmins, Montreal,
President Chromium Mining & Smelting Corp. Ltd.

*Colin W. Webster, Montreal,
President, Canadian Fuel Marketers Ltd.

Officers

T. N. Beaupré,
Chairman of the Board and President

P. Delagrave,
Vice-President - Employee and Public Relations

W. R. Lawson,
Vice-President - Purchasing and Traffic

R. J. Moyse,
Vice-President - Finance

A. E. Penney,
Vice-President - Research and Engineering

S. A. Kerr,
Secretary and Treasurer

J. H. Smith,
Controller

E. G. Aust,
Assistant Treasurer

J. H. Rennie,
Assistant Controller

H. B. Nickerson,
Assistant Secretary

A. Gascon,
Assistant Secretary

Group Presidents

A. D. Hamilton – Domtar Pulp & Paper Products Ltd.
J. Cochran – Domtar Construction Materials Ltd.
A. Monsaroff – Domtar Chemicals Limited

Head Office

395 de Maisonneuve Blvd. West, Montreal 111, Que.

Transfer Agents

for preference and common shares:
Montreal Trust Company – Halifax, N.S.; Saint John, N.B.; Montreal, Que.; Toronto, Ont.; Winnipeg, Man.; Calgary, Alta.; Vancouver, B.C.

for common shares only:
The Bank of New York – New York, N.Y.

Registrars

for preference and common shares:
The Royal Trust Company – Halifax, N.S.; Saint John, N.B.; Montreal, Que.; Toronto, Ont.; Winnipeg, Man.; Calgary, Alta.; Vancouver, B.C.

for common shares only:
The Bank of New York – New York, N.Y.

Les actionnaires qui préféreraient recevoir leurs rapports en français n'ont qu'à en aviser le Secrétaire de Domtar Limited.

*Members of the Executive Committee

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DOMTAR Domtar Limited

NOTICE OF ANNUAL AND SPECIAL GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN THAT an Annual and Special General Meeting of the Shareholders of DOMTAR LIMITED will be held in Windsor Hall of the Windsor Hotel, Dominion Square, Montreal, Quebec on Tuesday, the 30th day of April, 1968 at 11:00 o'clock in the forenoon for the purposes of:

(a) considering and, if deemed advisable, sanctioning and confirming, with or without modification, By-law Twenty-four passed by the Directors of the Company decreasing the number of directors of the Company from twenty-five (25) to twenty-four (24);

(b) receiving and considering the Report of the Directors to the Shareholders, the financial statements of the Company for the year ended December 31, 1967 and the Auditors' Report thereon;

(c) electing Directors;

(d) appointing Auditors for the ensuing year, and

(e) transacting such other business as may properly be brought before the meeting.

By Order of the Board,

S. A. KERR, C.A., F.C.I.S.
Secretary

Montreal, Quebec,
March 11, 1968.

It is important that your stock be represented and that your wishes be made known. If you cannot be present to vote in person, would you please complete and sign the enclosed proxy form and return it as soon as possible in the envelope provided.

DOMTAR Domtar Limited

INFORMATION CIRCULAR

(The information given herein is as of February 15, 1968)

SOLICITATION OF PROXIES

This information circular is furnished in connection with the solicitation by the management of Domtar Limited (the Company) of proxies for use at the Annual and Special General Meeting of the Shareholders of the Company to be held on April 30, 1968. The cost of solicitation will be borne by the Company.

VOTING AT THE MEETING

On February 15, 1968 the Company had outstanding 14,700,700 common shares without nominal or par value. The holders of such shares are entitled to one vote for each such share held.

Only shareholders of record as at the close of business on April 12, 1968 will be entitled to vote at and take part in the business of the meeting.

Argus Corporation Limited is the beneficial owner of record of more than 10% of the outstanding common shares of the Company, owning 2,475,000 common shares or 16.8% as at February 15, 1968.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors and/or officers of the Company. **A shareholder desiring to appoint some other person (who must himself be a shareholder or have been appointed to act at the meeting as the authorized representative of a corporation) to represent him at the meeting may do so,** either by inserting such person's name in the blank space provided in the form of proxy and deleting the names printed thereon or by completing another proper form of proxy and, in either case, delivering the completed proxy to the Secretary of the Company prior to the meeting.

A shareholder who signs and returns the enclosed form of proxy may revoke it at any time before it is acted upon.

VOTING OF SHARES REPRESENTED BY MANAGEMENT PROXY

The shares represented by any proxy in the form enclosed herewith and appointing the persons designated thereon or any of them to represent the shareholder at the meeting will be voted in accordance with the specifications given by the shareholder. IN THE ABSENCE OF SUCH SPECIFICATIONS, SUCH SHARES WILL BE VOTED FOR THE APPROVAL OF BY-LAW TWENTY-FOUR, FOR THE APPROVAL OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS, AND FOR THE ELECTION OF DIRECTORS AND THE APPOINTMENT OF AUDITORS AS STATED UNDER THOSE HEADINGS IN THIS CIRCULAR.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of the Meeting. The management is not aware of any other matters which will be presented for action at the meeting. If, however, other matters properly come before the meeting, the persons designated in the enclosed form of proxy will vote thereon in accordance with their judgment pursuant to the discretionary authority conferred by the proxy with respect to such matters.

ELECTION OF DIRECTORS

If By-law Twenty-four reducing the number of directors is sanctioned and confirmed, the Board will consist of twenty-four directors, all of whom are required to be elected annually. The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth below. Each director will be elected to hold office until the next Annual General Meeting of the Shareholders or until his successor is duly elected. In the event that prior to the Annual and Special General Meeting any vacancies occur in the slate of nominees submitted herewith, it is intended that the discretionary power granted by the form of proxy shall be used to vote for any other person or persons as directors. The management is not aware that any of such nominees would be unwilling to serve if elected.

The following persons are proposed to be nominated for election as directors of the Company:

Name	Present principal occupation or employment and principal occupation or employment within the five preceding years	Director since	Shares of the Company beneficially owned directly or indirectly as of February 15, 1968
T. N. Beaupré	Chairman of the Board of Domtar Limited since January 25, 1966. President of Domtar Limited since December 31, 1966. Chairman of the Board of British Columbia Forest Products Limited since June 19, 1964. President of British Columbia Forest Products Limited from October 1, 1962 to June 19, 1964	1965	5,361 common shares
George W. Bourke	Chairman of the Board of Sun Life Assurance Company of Canada	1961	601 common shares
Ralph W. Cooper	President of Cooper Construction Company Limited	1959	1,701 common shares
H. Roy Crabtree	Chairman and President of Wabasso Limited	1958	41,501 common shares
George H. Dobbie	President of The Dobbie Industries Limited	1959	201 common shares
Raymond Dupuis, Q.C.	Advocate and Company Director	1949	400 preference shares 1,001 common shares
*J. E. L. Duquet, Q.C.	Senior partner in the legal firm of Duquet, Mackay, Weldon, Bronstetter, Willis and Johnston	1961	815 common shares
A. L. Fairley, Jr.	Chairman of the Executive Committee of the Board of Directors of Domtar Limited since July 25, 1967. President and Chief Executive Officer of Hollinger Consolidated Gold Mines, Limited since September 1, 1964. President of Dominion Steel and Coal Corporation from 1958 to September 1, 1964	1967	101 common shares
Hon. George B. Foster, Q.C.	Senior partner in the legal firm of Foster, Watt, Leggat, Colby, Rioux and Malcolm	1961	2,001 common shares
P. M. Fox	Chairman of the Board of The Great Lakes Paper Company, Limited	1952	7,501 common shares
C. L. Gundy	Chairman of the Board of Wood Gundy Securities Limited since 1967. President of Wood Gundy Securities Limited from 1963 to 1967	1958	1,001 common shares
Roger T. Hager	Chairman of the Board and Chief Executive Officer of The Canadian Fishing Company Limited since April 1, 1966. President and General Manager of The Canadian Fishing Company Limited from June 26, 1953 to April 1, 1966	1959	16 common shares

Name	Present principal occupation or employment and principal occupation or employment within the five preceding years	Director since	Shares of the Company beneficially owned directly or indirectly as of February 15, 1968
J. G. Kirkpatrick, Q.C.	Partner in the legal firm of Ogilvy, Cope, Porteous, Hansard, Marler, Montgomery & Renault	1954	611 common shares
Camille Lacroix	President of Matapedia Company Limited	—	1,001 common shares
Roger Létourneau, Q.C.	Senior Partner in the legal firm of Létourneau, Stein, Marseille, Bienvenue, Delisle & LaRue	1965	101 common shares
A. B. Matthews, C.B.E., D.S.O.	Chairman of The Excelsior Life Insurance Company	1966	501 common shares
*John A. McDougald	Chairman of the Board and President of Crown Trust Company	1951	2,653 common shares
Maxwell C. G. Meighen, O.B.E.	President of Canadian General Investments Limited	1964	1,001 common shares
Nathan Pitcairn	Director of The Pitcairn Company	1961	19,001 common shares
Arthur Ross	Executive Vice-President and Managing Director of Central National Corporation	1961	1 common share
J. N. Swinden	General Manager of Argus Corporation Limited	1961	726 common shares
E. P. Taylor, C.M.G.	Chairman of New Providence Development Company Limited. Chairman of the Board of Canadian Breweries Limited	1948	1,001 common shares
J. T. Timmins	President and General Manager of Chromium Mining & Smelting Corp. Ltd.	1966	101 common shares
Colin W. Webster	President of Canadian Import Limited	1952	20,001 common shares

*The following directors own shares of St. Lawrence Corporation Limited, a subsidiary of Domtar Limited.

J. E. L. Duquet, Q.C.	8 common shares
John A. McDougald	100 common shares

REMUNERATION OF MANAGEMENT AND OTHERS

During the financial year of the Company ended December 31, 1967, the aggregate direct remuneration paid or payable by the Company and its consolidated subsidiaries to the directors and the senior officers of the Company was $777,277.73. No amount was paid or payable as direct remuneration to such directors or senior officers by unconsolidated subsidiaries of the Company.

The estimated aggregate cost to the Company and its subsidiaries in the financial year of the Company ended December 31, 1967 of all pension benefits proposed to be paid under any normal pension plan or plans in the event of retirement at normal retirement age, directly or indirectly, by the Company or any of its subsidiaries to the directors and senior officers of the Company was $23,697.95.

APPOINTMENT OF AUDITORS

The management of the Company proposes to nominate Messrs. Price Waterhouse & Co., the present auditors, as auditors of the Company to hold office until the next annual meeting of shareholders. It is intended that the shares represented by proxies solicited by and on behalf of the management of the Company will be voted in favour of the appointment of Messrs. Price Waterhouse & Co. as auditors of the Company.

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NOTICE OF ANNUAL AND SPECIAL GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN THAT an Annual and Special General Meeting of the Shareholders of DOMTAR LIMITED will be held at Domtar House, 395 de Maisonneuve Blvd. West, Montreal, Quebec on Tuesday, the 29th day of April, 1969 at 3:30 o'clock in the afternoon for the purposes of:

1. considering and, if deemed advisable, sanctioning and confirming, with or without modification, the following by-laws passed by the Board of Directors:
   (a) By-law Twenty-five, changing the name of the Company to Domtar Limited—Domtar Limitée;
   (b) By-law Twenty-six, amending the general by-laws of the Company;
2. receiving and considering the Report of the Directors to the Shareholders, the financial statements of the Company for the year ended December 31, 1968 and the Auditors' Report thereon;
3. electing Directors;
4. appointing Auditors for the ensuing year; and
5. transacting such other business as may properly be brought before the meeting.

By Order of the Board,

S. A. KERR, C.A., F.C.I.S.
Secretary

Montreal, Quebec
March 11, 1969.

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AND THAT YOUR WISHES BE MADE KNOWN. IF YOU CANNOT BE PRESENT TO VOTE IN PERSON, WOULD YOU PLEASE COMPLETE AND SIGN THE ENCLOSED PROXY FORM AND RETURN IT AS SOON AS POSSIBLE IN THE ENVELOPE PROVIDED.

INFORMATION CIRCULAR

(The information given herein is as of February 21, 1969)

SOLICITATION OF PROXIES

This information circular is furnished in connection with the solicitation by the management of Domtar Limited (the Company) of proxies for use at the Annual and Special General Meeting of the Shareholders of the Company to be held on April 29, 1969. The cost of solicitation will be borne by the Company.

VOTING AT THE MEETING

On February 21, 1969 the Company had outstanding 14,700,700 common shares without nominal or par value. The holders of such shares are entitled to one vote for each such share held.

Only shareholders of record as at the close of business on April 11, 1969 will be entitled to vote at and take part in the business of the meeting.

Argus Corporation Limited is the beneficial owner of record of more than 10% of the outstanding common shares of the Company, owning 2,500,000 common shares or 17% as at February 21, 1969.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors and/or officers of the Company. **A shareholder desiring to appoint some other person (who need not himself be a shareholder but in the case of a corporation a person must have been duly authorized to act at the meeting) to represent him at the meeting may do so,** either by inserting such person's name in the blank space provided in the form of proxy and deleting the names printed thereon or by completing another proper form of proxy and, in either case, delivering the completed proxy to the Secretary of the Company prior to the meeting.

A shareholder who signs and returns the enclosed form of proxy may revoke it at any time by notice in writing to the Company before it is acted upon.

CONFIRMATION OF BY-LAWS TWENTY-FIVE AND TWENTY-SIX

By-Law Twenty-Five will be submitted to the shareholders for sanction and confirmation at the meeting. The approval of this By-Law will allow the Company to use either Domtar Limited or Domtar Limitée as its corporate name.

By-Law Twenty-Six will be submitted to the shareholders for sanction and confirmation at the meeting in order to up-date the general by-laws of the Company to reflect recent amendments to the Canada Corporations Act. A copy of By-Law Twenty-Six appears in full at the end of this circular.

VOTING OF SHARES REPRESENTED BY MANAGEMENT PROXY

The shares represented by any proxy in the form enclosed herewith and appointing the persons designated thereon or any of them to represent the shareholder at the meeting will be voted in accordance with the specifications given by the shareholder. IN THE ABSENCE OF SUCH SPECIFICATIONS, SUCH SHARES WILL BE VOTED FOR THE APPROVAL OF BY-LAWS TWENTY-FIVE AND TWENTY-SIX, FOR THE APPROVAL OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS, FOR THE ELECTION OF DIRECTORS AND FOR THE APPOINTMENT OF AUDITORS AS STATED UNDER THOSE HEADINGS IN THIS CIRCULAR.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of the Meeting. The management is not aware of any other matters which will be presented for action at the meeting. If, however, other matters properly come before the meeting, the persons designated in the enclosed form of proxy will vote thereon in accordance with their judgment pursuant to the discretionary authority conferred by the proxy with respect to such matters.

ELECTION OF DIRECTORS

The Board of Directors consists of twenty-four members, all of whom are required to be elected annually. The persons named in the enclosed form of proxy intend to vote for the election of the

nominees whose names are set forth below. Each director will be elected to hold office until the next Annual General Meeting of the Shareholders or until his successor is duly elected. In the event that prior to the Annual and Special General Meeting any vacancies occur in the slate of nominees submitted herewith, it is intended that the discretionary power granted by the form of proxy shall be used to vote for any other person or persons as directors. The management is not aware that any of such nominees would be unwilling to serve if elected.

The following persons are proposed to be nominated for election as directors of the Company:

Name	Present principal occupation or employment	Director since	Shares of the Company beneficially owned directly or indirectly as of February 21, 1969
*T. N. Beaupré	Chairman of the Board and President of Domtar Limited	1965	5,361 common shares
George W. Bourke	Chairman of the Board of Sun Life Assurance Company of Canada	1961	601 common shares
Ralph W. Cooper	President of Cooper Construction Company Limited	1959	1,701 common shares
*H. Roy Crabtree	Chairman and President of Wabasso Limited	1958	41,501 common shares
George H. Dobbie	President of The Dobbie Industries Limited	1959	201 common shares
Raymond Dupuis, Q.C.	Advocate and Company Director	1949	400 preference shares 1,001 common shares
†J. E. L. Duquet, Q.C.	Senior partner in the legal firm of Duquet, Mackay, Weldon, Bronstetter, Willis and Johnston	1961	815 common shares
*A. L. Fairley, Jr.	Chairman of the Executive Committee of the Board of Directors of Domtar Limited. President and Chief Executive Officer of Hollinger Mines Limited	1967	101 common shares
Hon. George B. Foster, Q.C.	Senior partner in the legal firm of Foster, Watt, Leggat, Colby, Rioux and Malcolm	1961	2,001 common shares
P. M. Fox	Chairman of the Board of The Great Lakes Paper Company, Limited	1952	7,501 common shares
C. L. Gundy	Chairman of the Board of Wood Gundy Securities Limited	1958	1,001 common shares
Roger T. Hager	Chairman of the Board and Chief Executive Officer of The Canadian Fishing Company Limited	1959	116 common shares
J. G. Kirkpatrick, Q.C.	Partner in the legal firm of Ogilvy, Cope, Porteous, Hansard, Marler, Montgomery & Renault	1954	611 common shares
Camille Lacroix	President of Matapedia Company Limited	1968	1,001 common shares
Roger Létourneau, Q.C.	Senior Partner in the legal firm of Létourneau, Stein, Marseille, Bienvenue, Delisle & LaRue	1965	101 common shares
*A. B. Matthews, C.B.E., D.S.O.	Chairman of The Excelsior Life Insurance Company	1966	501 common shares
†*John A. McDougald	Chairman of the Board and President of Crown Trust Company	1951	2,653 common shares
*Maxwell C. G. Meighen, O.B.E.	President of Canadian General Investments Limited	1964	1,001 common shares
Nathan Pitcairn	Director of The Pitcairn Company	1961	21,001 common shares
*Arthur Ross	Executive Vice-President and Managing Director of Central National Corporation	1961	1 common share
*J. N. Swinden	General Manager of Argus Corporation Limited	1961	726 common shares
*E. P. Taylor, C.M.G.	Chairman of The New Providence Development Company Limited	1948	1,001 common shares
J. Thomas Timmins	President of Chromium Mining & Smelting Corp. Ltd.	1966	101 common shares
*Colin W. Webster	President of Canadian Fuel Marketers Ltd.	1952	20,001 common shares

*Members of Executive Committee

†The following directors own shares of St. Lawrence Corporation Limited, a subsidiary of Domtar Limited.

J. E. L. Duquet, Q.C.	9 common shares
John A. McDougald	101 common shares

REMUNERATION OF MANAGEMENT AND OTHERS

During the financial year of the Company ended December 31, 1968, the aggregate direct remuneration paid or payable by the Company and its consolidated subsidiaries to the directors and the senior officers of the Company was $505,577.20. No amount was paid or is payable as direct remuneration to such directors or senior officers by unconsolidated subsidiaries of the Company.

The estimated aggregate cost to the Company and its subsidiaries in the financial year of the Company ended December 31, 1968 of all pension benefits proposed to be paid under any normal pension plan or plans in the event of retirement at normal retirement age, directly or indirectly, by the Company or any of its subsidiaries to the directors and senior officers of the Company was $14,432.04.

Pursuant to any existing plan or arrangement, the aggregate of the future payments proposed to be made directly or indirectly by the Company and its subsidiaries to its directors and senior officers, while employed by the Company or its subsidiaries, is estimated to be $110,000.00 per year up to a maximum of fourteen years, and following termination of employment annual payments which, when added to the aggregate of all amounts payable under normal retirement or pension plans of the Company and its subsidiaries, will total $72,239.56 if termination occurs prior to December 31, 1969, increasing to a maximum of $131,279.56 if employment continues to normal retirement age and all said benefiting directors and senior officers are then alive.

APPOINTMENT OF AUDITORS

The management of the Company proposes to nominate Messrs. Price Waterhouse & Co., the present auditors, as auditors of the Company to hold office until the next annual meeting of shareholders. It is intended that the shares represented by proxies solicited by and on behalf of the management of the Company will be voted in favour of the appointment of Messrs. Price Waterhouse & Co. as auditors of the Company.

BY-LAW TWENTY-SIX
1969 BY-LAW AMENDMENTS

BE IT AND IT IS HEREBY ENACTED AS FOLLOWS:

BY-LAW TWO is hereby amended

(a) by replacing the first paragraph of Article 5 thereof by the following:

"ARTICLE 5. QUORUM, VOTING AND ADJOURNMENTS.

Two (2) or more persons personally present, each of whom shall be entitled to vote thereat either personally or as the proxy of a shareholder or as the authorized representative of a corporation which is a shareholder and representing either in their own right or by proxy or as representatives of such a corporation not less than twenty-five per cent (25%) of the outstanding shares of capital stock of the Company carrying voting rights thereat, shall constitute a quorum for an annual meeting or a special general meeting of the shareholders of the Company.";

(b) by replacing the last sentence of the second paragraph of Article 6 thereof by the following:

"Any shareholder or proxy of a shareholder or authorized representative of a corporation entitled to vote may demand a poll in respect of any matter submitted to the vote of the shareholders."; and

(c) by replacing the third paragraph of said Article 6 thereof by the following:

"Shareholders (including a corporation) entitled to vote may vote upon a poll by written proxy at all meetings of the shareholders, and the representative of a corporation entitled to vote may likewise vote by proxy if duly authorized in that behalf by such corporation and any instrument appointing a proxy shall be valid until withdrawn by notice in writing to the Company.

"No shareholder in arrears in respect of any call shall be entitled to vote at any meeting of shareholders."

BY-LAW THREE of the Company is hereby amended

(a) by adding the following proviso at the end of Article 2 thereof:

"Notwithstanding the provisions of this Article 2, a person may become a director of the Company if he becomes the holder of at least one (1) common share of capital stock of the Company within ten (10) days after his election or appointment as a director."; and

(b) by inserting the following sentence at the beginning of the third paragraph of Article 3 thereof:

"Where there is a vacancy or vacancies in the Board of Directors, the remaining directors may exercise all the powers of the Board so long as a quorum remains in office."

Les actionnaires qui préféreraient recevoir leur circulaire d'information en français n'ont qu'à en aviser le Secrétaire de Domtar Limited.

Highlights

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	1968	1967
Sales	$427,398,927	$428,003,663
Income taxes — Current	$ 7,300,000	$ 4,700,000
Income taxes — Deferred	$ 2,068,624	$ 633,373
Net income	$ 10,834,338	$ 9,113,877
Common shares outstanding	14,700,700	14,700,700
Earnings per common share	$ 0.72	$ 0.60
Dividends per common share	$ 0.60	$ 0.90
Working capital	$146,192,404	$119,972,922
Cash flow — Total	$ 37,902,962	$ 31,997,250
Cash flow — Per common share	$ 2.56	$ 2.16
Expenditures on plant (net)	$ 10,108,558	$ 16,426,458
Book value per common share	$ 15.63	$ 15.52
Number of preference shareholders	1,435	1,500
Number of common shareholders	48,543	49,346
Number of employees — exclusive of woods workers	17,113	17,333*
Payroll	$113,203,000	$112,990,000*

*Excludes Consumer Products division.

Report of the Directors to the Shareholders

The consolidated financial statements of Domtar Limited and its subsidiaries for the year ended December 31, 1968 together with the report of the Auditors are submitted on behalf of your Board of Directors.

The financial results for 1968 were encouraging. Net income and cash flow were appreciably higher than in 1967 and the improvement would have been even better had it not been for strikes, particularly those at the pulp and paper mills at East Angus and Windsor, Quebec, which began on July 18 and continued until the latter part of January, 1969.

In 1968 net income after all charges was $10.8 million compared with $9.1 million in 1967. Earnings per common share, after providing for preference dividends, amounted to 72 cents in 1968 compared with 60 cents for the previous year.

The cash flow generated during the year was $37.9 million, an increase of $5.9 million over that for 1967. Per common share, it equalled $2.56 in 1968 and $2.16 in 1967.

Sales in 1968 amounted to $427.4 million. As the Consumer Products division was sold to Bristol-Myers Company at the end of 1967, a proper comparison of sales in 1968 and 1967 entails the deduction of that division's sales from the total reported sales for 1967. On that basis the sales for 1968 were $16.9 million higher than the comparable figure for 1967. Sales of the major product groups in each of the two years were as follows:

	1968		1967	
	$ millions	%	$ millions	%
Pulp and Paper	$279.0	65.3	$272.0	63.6
Construction Materials	86.4	20.2	81.0	18.9
Chemicals	62.0	14.5	57.5	13.4
	427.4	100.0	410.5	95.9
Consumer Products	—	—	17.5	4.1
	$427.4	100.0	$428.0	100.0

Mainly because of the greater activity in residential building, sales of construction materials reached record levels. An appreciable gain was achieved in sales of chemicals. For pulp and paper products, the dollar value of sales of newsprint and fine papers was slightly higher than in 1967 but a substantial improvement was obtained for corrugated and containerboard products; the additional sales from the mill at Lebel-sur-Quévillon, Quebec, were almost offset by the effects of the strikes at East Angus and Windsor.

With current and deferred income taxes aggregating $9.4 million in 1968, the charge against profits for income taxes was $4.0 million higher than in 1967. Depreciation and depletion were also greater in 1968, amounting to $25.0 million in 1968 compared with $22.3 million for the previous year. This increase is largely due to the fact that in 1968 the Company took a full year's depreciation on the plant and facilities at Quévillon. In 1968 the cost of operating the mill at Quévillon has been charged to cost of sales; in 1967 preproduction expenses of $7.2 million were charged against profits as a separate item. Profit before deducting the above mentioned items of income taxes, depreciation and depletion and preproduction expenses amounted to $43.9 million in 1967 compared with $45.2 million in 1968 despite the prolonged strikes at East Angus and Windsor.

Cost reduction programs, particularly in the Newsprint Company, helped to soften the impact of increased costs of labour, materials and services. The pulp mill and chemical plant at Quévillon showed considerable improvement in production, costs and sales. Operating company and corporate overheads were significantly reduced during the year.

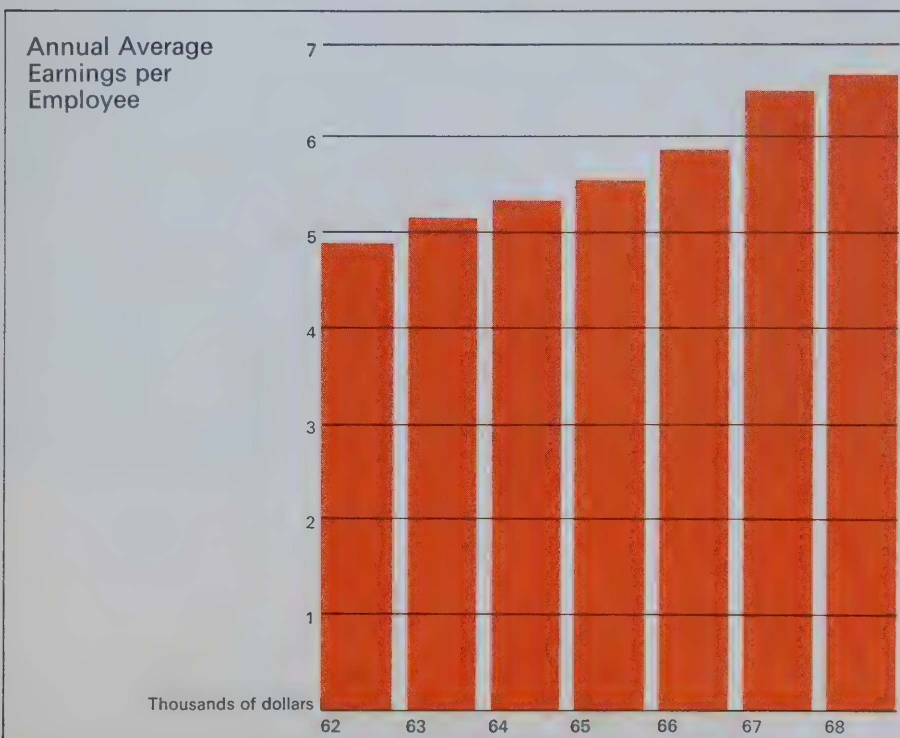
Investment and sundry income amounted to $4.7 million in 1968 compared with $1.9 million the previous year. This increase of $2.8 million was largely due to the interest earned on the note receivable from the Bristol-Myers Company and on the investment of surplus funds in the money market. Appreciable capital gains were made on the purchase of outstanding long term debt for sinking fund purposes. While capital gains were realized on the sale of certain fixed assets, these were largely offset by the write-off of surplus or obsolete plant and machinery.

Dividends

The regular dividends of $1.00 per preference share and 60¢ per common share were paid in 1968. Canadian holders of the common and preference shares of Domtar Limited are entitled under the Canadian Income Tax Act to a 10% depletion allowance on dividends received by them in 1968.

Funded Debt

Consolidated funded debt totalled $158.2 million at the end of 1968 compared with $169.0 million at December 31, 1967. At the end of 1968 the



funded debt due within one year amounted to $2.5 million, a reduction of $1.1 million from the comparable figure at the close of the previous year. This is due to the fact that at the close of 1968 additional securities were held in anticipation of the sinking fund requirements for 1969.

Fixed Assets

As a matter of general policy, fixed capital expenditures have been held to relatively low levels over the past two years. Net outlays on plant and equipment amounted to $10.1 million in 1968 and $16.4 million during the previous year compared with an annual average of $43.2 million over the four-year period 1963 through 1966. Expenditures on fixed assets are currently expected to be about $25 million in 1969.

With respect to the major projects mentioned in the Annual Report for 1967, the second supercalender and ancillary equipment to increase the production of coated publication grade papers at Trois-Rivières, Quebec, came into operation in January, 1969. The new fully automatic press and other equipment to increase the capacity of the "Arborite" plastic laminates plant in the United Kingdom came into production during the third quarter of the year. The project to double the capacity of the "Haydite" lightweight aggregate plant at Cooksville, Ontario, was finished about mid-year.

The largest single expenditure in 1968 was $1.2 million on the construction of the first 14 miles of a 55 mile all-weather main haul truck road extending from the newsprint mill at Dolbeau, Quebec, to a new cutting area within the supporting wood limits. The construction of the road, which is being supervised by Domtar's staff, will take three years to complete at an estimated cost of $4.6 million. The Woodlands division also spent about $1.5 million on equipment and facilities for the more efficient harvesting of wood for the Company's mills.

In the Trois-Rivières mill, work was commenced late in the year on the replacement of two old boilers by a new oil-fired pressurized unit which will have sufficient capacity to look after the mill's requirements for the next several years. The estimated cost of the project is $1.3 million.

The Don Valley fine paper mill in Toronto is being expanded at a cost of some $400 thousand. The added capacity will be achieved mainly by increasing the work space available through the

relocation of some machinery and by improving equipment and handling facilities.

The annual capacity of the plant of the Sifto Salt division at Unity, Saskatchewan, is being expanded from 92,000 to 150,000 tons at an estimated cost of $2.4 million. The new facilities, which are expected to be completed in late 1969, are designed to permit a further expansion to 200,000 tons of fine salt annually.

In May, the plastics plant at Moorestown, New Jersey, was sold to St. Regis Paper Company. The plant, which came into operation in 1966, produced plastic trays for bakery, biscuit and chocolate manufacturers in the Eastern United States. It was decided to accept the offer of St. Regis, which was already in the business, as it would have been necessary to spend fairly large sums of money in order to diversify the product line and thus be able to compete more effectively in that area of the packaging industry. The sale produced a capital gain.

Working Capital

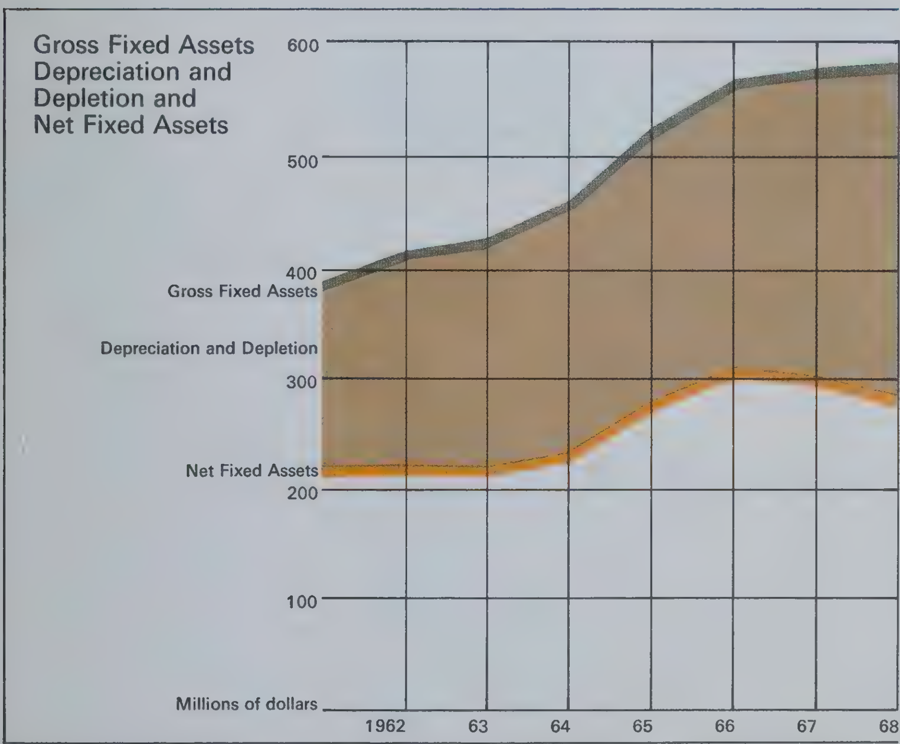
Net working capital amounted to $146.2 million at the end of 1968 compared with $120.0 million at December 31, 1967. The ratio of current assets to current liabilities was 4.0 to 1. There has been a substantial improvement in the liquidity of the working capital. Cash, short term investments and receivables less current liabilities (the "quick assets") totalled $53.8 million at the close of 1968 as against $21.0 million at the end of the previous year. The quick asset ratio was 2.1 to 1 at December 31, 1968. There was an appreciable improvement in the net cash position of the Company during the year. Cash and short term investments less bank indebtedness was $12.9 million at the end of 1968 compared with $0.4 million at the close of 1967.

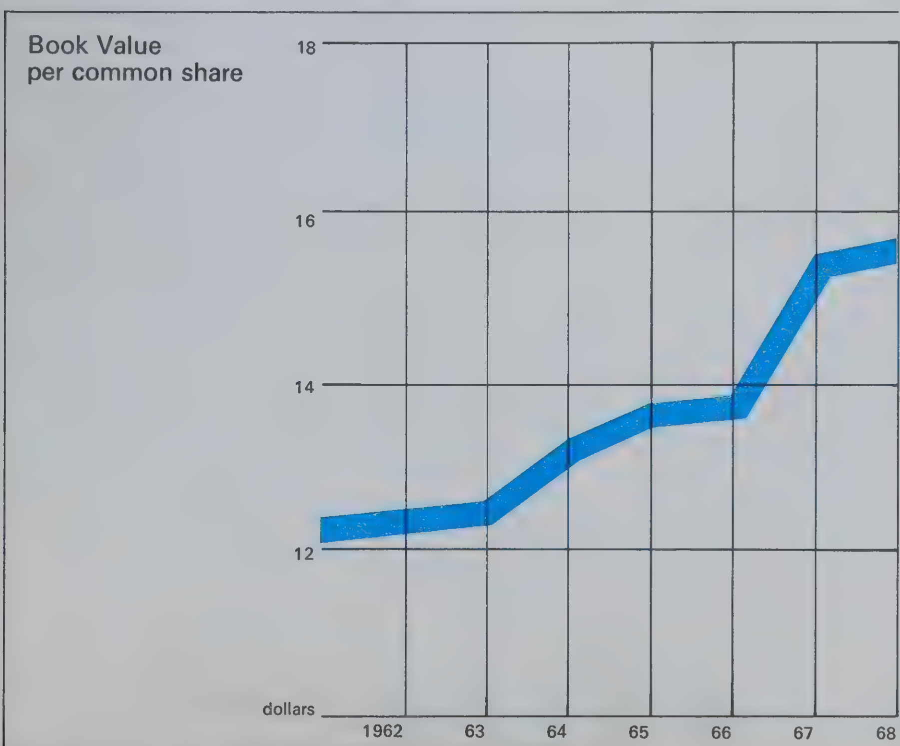
Subsidiaries

At December 31, 1968 the Company owned 4,372,873 common shares or 98.1% of St. Lawrence Corporation Limited. That company in turn owned 337,468 common shares or 93.7% of Hinde and Dauch Limited as of the same date.

Organization

During the year the Company's pulp and paper operations were consolidated under Domtar Pulp & Paper Products Ltd. with A. D. Hamilton as President. This consolidation provides an





organizational structure for the pulp and paper unit which is basically similar to that in chemicals and construction materials.

A. Monsaroff of Domtar Chemicals Limited and J. Cochran of Domtar Construction Materials Ltd. were appointed President of their respective companies. Their change in title from Vice-President and Managing Director to President formalizes a situation which has existed in fact for many years.

The move of all the Head Office personnel from four different buildings in Montreal to a new one known as Domtar House was completed in November. The new location has been favourably accepted by the employees. It is already apparent that it is more efficient to have all Head Office personnel in one building.

There was a considerable improvement in the capabilities of staff departments during the year. The Company is continuing and increasing its efforts to define positions and to clarify responsibilities, particularly in the management area of the Domtar group.

Labour Relations

The prolonged strikes at East Angus and Windsor were settled in January and the striking employees returned to work on January 23. The strikes were costly both to the Company and union members. The Company hopes that, in the future, communications between management and labour will be much improved and the authority of the law and the courts will be respected. The Company's attitude towards labour-management relations continues to be one of seeking fair and equitable treatment with mutual respect and regard for each other's rights and obligations.

As an attempt to meet the impact of industrial change upon the labour force without impeding the introduction of new technology, the Company and most of the unions agreed to implement the Domtar Industrial Conversion Plan.

Research

Domtar Limited continues to give active support to the research program of the Pulp and Paper Research Institute of Canada and has maintained, at a slightly reduced level of activity, the programs for research in its own Research Department. The direction of the program envisaged in 1969 for the Company's research activities has, to

some degree, been changed with increased emphasis on the closer integration of the research activities with the manufacturing, quality, and product development problems of the Operating Companies.

Pollution

The abatement of pollution continues to receive the close attention of the Company's management at all levels. A number of projects have been completed and others are either under way or under study. Government and industry are now cooperating in this area but much remains to be done. It must be recognized that pollution abatement can be costly for a corporation with the social benefits usually far in excess of the private return. The effects of environmental pollution are matters of concern for everyone and the Company's attitude is that of the good corporate citizen.

Board of Directors

At the Annual Meeting of Shareholders held in April last year, Mr. Camille Lacroix was elected to the Board of Directors to fill the vacancy created by the retirement of Mr. R. D. Harkness, D.S.O., M.C. Mr. Lacroix is the President of Matapedia Company Limited in St. Romuald, Quebec.

Prospects for 1969

The current outlook for 1969 is for a moderate increase in earnings. The excess of supply over demand for newsprint and pulp should narrow and permit higher operating rates at the mills and a generally improved price structure for these products. Several of the domestic paper markets served by the company are being affected by the Kennedy Round tariff reductions and competitive conditions are therefore expected to be keen.

With housing units under construction at the end of 1968 at an all-time high, residential building activity in the first quarter of 1969 is projected to be considerably stronger than in the same period in 1968. This, coupled with the expected increase in housing starts, should result in greater sales and earnings from Construction Materials in 1969. Chemicals should, as it has for some years, continue to record greater sales and profits.

Appreciation

The Company is grateful for the goodwill and cooperation of its many customers and suppliers. The Directors wish to record their appreciation to those employees whose competence and enthusiasm contributed to the continued progress of the Company.

On behalf of the Board
T. N. Beaupré
Chairman and President

Montreal, Quebec, March 11, 1969.

Consolidated Statement of Source and Application of Funds
for the Year ended December 31, 1968

	1968	1967
Source of funds:		
Net income	$ 10,834,338	$ 9,113,877
Depreciation and depletion	25,000,000	22,250,000
Deferred income taxes	2,068,624	633,373
	37,902,962	31,997,250
Proceeds from sale of Consumer Products division	18,700,000	18,700,000
Disposals of fixed assets	2,606,844	1,109,891
Debentures, net of discount	—	34,125,000
	59,209,806	85,932,141
Application of funds:		
Expenditures on fixed assets	12,715,402	17,536,349
Dividends on preference shares	300,000	300,000
Dividends on common shares	8,820,420	13,230,630
Investments and advances	232,119	6,750,486
Reduction in funded debt	10,825,000	6,531,000
Reduction in minority interests	1,149,637	952,817
Transfer of deferred income taxes to income and other taxes — Note 4	750,000	(3,483,000)
Income taxes relating to a prior year — Note 4	570,000	—
Increase in working capital*	11,162,495	26,559,669
Other	132,746	267,736
	46,657,819	68,645,687
Increase in net cash position	12,551,987	17,286,454
Net cash position at beginning of year**	374,557	(16,911,897)
Net cash position at end of year**	$ 12,926,544	$ 374,557

*Excluding cash and short-term investments, bank indebtedness and funded debt due within one year
**Represented by cash and short-term investments less bank indebtedness

Consolidated Balance Sheet
as at December 31, 1968

Assets

	1968	1967 (restated)
Current assets:		
Cash and short-term investments	$ 17,025,808	$ 4,906,874
Receivables	66,919,216	66,573,977
Note receivable, due January 31, 1969	18,700,000	—
Inventories of finished products, work-in-process, raw materials and supplies, at lower of cost and net realizable value	59,385,349	58,142,308
Pulpwood, at cost, and expenditures on woods operations	30,888,719	38,411,901
Prepaid expenses	2,118,784	2,408,978
	195,037,876	170,444,038
Note receivable, due January 31, 1969	—	18,700,000
Investments and advances, at cost:		
Listed securities (quoted value — $10,208,916)	13,319,969	13,319,969
Other investments and advances — Note 1	20,736,667	20,504,548
	34,056,636	33,824,517
Fixed assets: — Note 2		
Land and water power rights	6,557,366	6,649,187
Plant, machinery, facilities and timber limits	582,213,594	576,431,866
	588,770,960	583,081,053
Less: Accumulated depreciation (including $6,380,082 for depletion)	297,507,929	276,926,580
	291,263,031	306,154,473
	$520,357,543	$529,123,028

Approved by the Board:
T. N. Beaupré, Director.
Colin W. Webster, Director.

Liabilities

	1968	1967 (restated)
Current liabilities:		
Bank indebtedness	$ 4,099,264	$ 4,532,317
Payables	37,376,108	37,972,749
Income and other taxes — Note 4	2,396,004	1,785,105
Dividends payable	2,524,096	2,545,945
Funded debt due within one year	2,450,000	3,635,000
	48,845,472	50,471,116
Funded debt: — Note 3	155,729,000	165,369,000
Deferred income taxes: — Note 4	54,979,455	52,910,831
Minority interests:		
Preferred shares of subsidiary companies — Note 5	20,012,800	20,431,600
Common share equity in subsidiary companies	3,999,845	4,730,682
	24,012,645	25,162,282
Capital:		
Capital stock —		
$1 cumulative redeemable preference shares, par value $23.50, redeemable at $25– Authorized and issued — 300,000 shares	7,050,000	7,050,000
Common shares without nominal or par value — Authorized — 20,000,000 shares Outstanding — 14,700,700 shares	131,042,318	131,042,318
Surplus resulting from restatement of certain fixed assets — Note 6	11,012,945	11,145,691
Earned surplus, per statement attached	87,685,708	85,971,790
	236,790,971	235,209,799
	$520,357,543	$529,123,028

Consolidated Statement of Net Income
for the Year ended December 31, 1968

	1968	1967
Sales and revenues:		
Sales	$427,398,927	$428,003,663
Investment and sundry income	4,734,236	1,940,682
	432,133,163	429,944,345
Costs and expenses:		
Cost of sales and selling and administrative expenses	375,616,402	374,326,809
Depreciation (including depletion of $174,409)	25,000,000	22,250,000
Interest on funded debt	9,648,404	9,408,068
Interest on other indebtedness	400,458	978,946
	410,665,264	406,963,823
Income before preproduction expenses, income taxes and minority interest	21,467,899	22,980,522
Preproduction expenses	—	7,243,513
Current income taxes	7,300,000	4,700,000
Deferred income taxes	2,068,624	633,373
Minority interest	1,264,937	1,289,759
	10,633,561	13,866,645
Net income for the year	$ 10,834,338	$ 9,113,877

Consolidated Statement of Earned Surplus
for the Year ended December 31, 1968

	1968	1967 (restated)
Earned surplus, balance at beginning of year:		
As previously reported	$ 86,541,790	$ 61,570,027
Adjustment — Note 4	570,000	570,000
Earned surplus as restated	85,971,790	61,000,027
Net income for the year	10,834,338	9,113,877
Gain on sale of Consumer Products division	—	30,263,516
	96,806,128	100,377,420
Discount on issue of debentures	—	875,000
Dividends on preference shares	300,000	300,000
Dividends on common shares	8,820,420	13,230,630
	9,120,420	14,405,630
Earned surplus, balance at end of year	$ 87,685,708	$ 85,971,790

Auditors' Report to the Shareholders:

We have examined the consolidated balance sheet of Domtar Limited and its subsidiaries as at December 31, 1968 and the consolidated statements of net income, earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, February 4, 1969.

Price Waterhouse & Co.,
Chartered Accountants.

Notes to Consolidated Financial Statements
as at December 31, 1968

Note 1 — Other investments and advances:
The amount shown includes $1,281,729 of secured loans to the Trustees for employees under the company's stock purchase plan.

Note 2 — Fixed assets:
Land and water power rights are stated at cost. Plant, machinery, facilities and timber limits are stated generally at cost, including the excess of the cost of the shares of a partially-owned subsidiary company over the book value of its net assets.

Note 3 — Funded debt:

Domtar Limited —	
3½% First mortgage sinking fund bonds, Series "B", maturing August 1, 1970	$ 600,000
5¼% Sinking fund debentures, Series "A", due June 1, 1978	17,500,000
6¼% Sinking fund debentures, Series "B", due May 1, 1980	10,275,000
5% Debentures, Series "C", due April 1, 1969	750,000
5½% Debentures, Series "C", due April 1, 1982	15,050,000
5¾% Debentures, Series "D", due serially April 1, 1969 to 1970	1,600,000
5¾% Debentures, Series "D", due April 1, 1984	16,000,000
5⅝% Sinking fund debentures, Series "E", due May 1, 1990	35,000,000
6¾% Sinking fund debentures, Series "F", due April 1, 1987	35,000,000
	131,775,000
Less: Held for sinking fund	3,699,000
	128,076,000
Howard Smith Paper Mills, Limited —	
3% First mortgage bonds, 1950 Series due December 1, 1969 - 1970	1,200,000
St. Lawrence Corporation Limited —	
First mortgage sinking fund bonds —	
5% Series "A", due April 15, 1972	8,294,000
4¾% Series "B", due April 15, 1972 (payable in U.S. funds)	3,016,000
5% Series "C", due May 1, 1978	8,084,000
Sinking fund debentures —	
6¾% Series "A", due June 15, 1980	13,000,000
	32,394,000
Less: Held for sinking fund	3,491,000
	28,903,000
Total funded debt outstanding	158,179,000
Less: Funded debt due within one year	2,450,000
	$155,729,000

Note 4 — Income taxes:
During 1968, the company completed the settlement of certain proposed reassessments for income taxes applicable to 1964. As a result, the balance of earned surplus at the beginning of 1967 and 1968 has been restated from amounts previously reported to reflect the retroactive charge of $570,000 for additional income taxes settled in 1968. The balance sheet for 1967 has been restated to reflect this charge and a related transfer of $750,000 from deferred income taxes to income and other taxes payable.

Note 5 — Minority interests – Preferred shares of subsidiary companies:

Howard Smith Paper Mills, Limited —	
160,000 $2 preferred shares of $50 each redeemable at $52½	$ 8,000,000
St. Lawrence Corporation Limited —	
120,128 5% preferred shares of $100 each, redeemable at $102 to May 15, 1971, and $101 thereafter	12,012,800
	$20,012,800

Note 6 — Surplus resulting from restatement of certain fixed assets:

Excess of restated depreciated value over depreciated book value of certain fixed assets (unchanged during year)	$15,141,969
Net excess (after net increase of $132,746 during 1968) of consideration for acquisition of shares of subsidiaries over book value of net assets	4,129,024
	$11,012,945

Note 7:
Remuneration received by directors, including salaries of officers who are also directors, aggregated $204,038 in 1968.

Historical Review(1)

	1968	1967	1966	1965	1964	1963	1962
Financial ($ Millions)							
Net fixed assets	291.3	306.2	316.0	280.4	235.1	226.8	226.6
Net working capital	146.2	120.0	78.6	116.3	113.5	91.7	94.5
Investments and advances	34.0	52.5	27.1	24.7	22.0	21.3	17.4
Total net assets	471.5	478.7	421.7	421.4	370.6	339.8	338.5
Represented by:							
Funded debt	155.7	165.4	137.2	144.0	115.8	102.2	109.1
Deferred income taxes	55.0	53.0	47.9	42.1	25.6	16.5	11.4
Minority interest	24.0	25.1	26.1	27.3	27.9	28.8	29.2
Shareholders' equity	236.8	235.2	210.5	208.0	201.3	192.3	188.8
	471.5	478.7	421.7	421.4	370.6	339.8	338.5
Sales and Revenues:							
Pulp and Paper	279.0	272.0	272.3	255.3	240.5	220.3	216.1
Chemicals	62.0	57.5	56.3	54.1	47.8	43.3	41.4
Construction Materials	86.4	81.0	84.1	80.8	81.6	73.7	72.5
Consumer Products	—	17.5	17.4	16.6	16.1	15.4	14.0
Other revenues	4.7	2.0	2.0	2.5	2.1	1.2	1.8
	432.1	430.0	432.1	409.3	388.1	353.9	345.8
Income before taxes	20.2	14.4	30.0	41.7	42.4	31.3	32.7
Current income taxes	7.3	4.7	2.8	3.5	12.8	10.5	12.0
Deferred income taxes	2.1	0.6	10.7	16.5	9.1	5.1	3.3
Net income	10.8	9.1	16.5	21.7	20.5	15.7	17.4
Cash flow	37.9	32.0	49.2	59.5	50.1	40.6	40.0
Capital expenditures (net)	10.1	16.4	57.6	66.5	28.9	19.9	29.3
Net income per common share	$ 0.72	0.60	1.10	1.46	1.38	1.06	1.17
Cash flow per common share	$ 2.56	2.16	3.33	4.05	3.41	2.77	2.72
Book value per common share	$15.63	15.52	13.84	13.74	13.29	12.72	12.48
Pulp and Paper Production (Tons)							
Newsprint	520,127	521,856	586,976	532,151	507,115	487,360	476,531
Kraft Paper and Board	364,800	388,912	378,394	435,705	428,705	406,418	415,298
Fine and Specialty Papers	214,700	204,525	207,572	179,529	170,511	131,441	125,116
Market Pulp	221,700	223,683	191,868	195,572	182,169	144,134	141,832
	1,321,327	1,338,976	1,364,810	1,342,957	1,288,500	1,169,353	1,158,777

(1) Figures have been adjusted to reflect the settlement of certain proposed reassessment for income taxes applicable to 1964.

Report on Operations
Domtar Pulp & Paper Products Ltd.

Domtar Woodlands Limited

Vice-President and General Manager — A. S. Fleming

Wood fibre deliveries to Domtar pulp and paper mills in 1968 totalled 1.9 million bone dry tons, 11% less than in the previous year. The lowering of the inventory by 280 thousand bone dry tons and a reduction of 190 thousand bone dry tons in requirements due to the strikes at East Angus and Windsor were the primary reasons for this decrease. Estimated requirements for 1969 are 2.4 million bone dry tons.

Higher costs for wages, supplies and purchased wood were largely offset by changes to lower cost wood species, a greater proportional use of sawmill by-products and improved efficiencies.

As in 1967, approximately 47% of the mill requirements were harvested on Company limits. A five year mechanization program to increase productivity and reduce costs was initiated on the Jacques Cartier limits in Quebec. The total expenditure of $1.9 million for this program is expected to reduce wood costs considerably.

Beginning in 1966, the cost of purchased wood rose rapidly as suppliers, especially the Quebec Agricultural Producers' Boards, obtained substantial price increases due to a temporary wood shortage and government arbitration awards. The cost of purchased wood increased 7.8% in 1966 and 14.8% in 1967. In 1968, the increase was held to a little over 3%. As this source of supply is the largest single cost factor in several of the mills in Quebec, the continued escalation of pulpwood prices is of serious concern to the Company, especially where profit margins are already narrow.

Inventories of pulpwood at all mills were reduced by $7.5 million as a result of tighter control and an increase in the percentage of direct deliveries.

For the second year in succession, this company has had the best safety record in the Quebec logging industry. This is part of an overall reduction from 36.3 lost time injuries for every million hours worked on company operations in 1965 to 14.5 in 1968.

A more extensive use of the forests, especially in Company holdings close to urban areas, is being actively pursued through integrated logging and the development of their recreational potential.

Domtar Newsprint Limited

Vice-President and General Manager — J. S. Hermon

Although total sales of newsprint, coated papers and containerboard improved only slightly, operating profit increased by a much greater proportion notwithstanding heavy labour and wood cost increases during the year. This was primarily a reflection of the success of various cost reduction programs and generally improved operating efficiencies.

As a result of a plan to achieve greater profit potential, both the Corrugated Products and Containerboard Sales divisions of Domtar Packaging Limited were integrated with Domtar Newsprint Limited whose mills at Red Rock and Trenton, Ontario, supply containerboard to the corrugated box plants located strategically across Canada. This integration has had a substantial impact on the improved profitability of these operations.

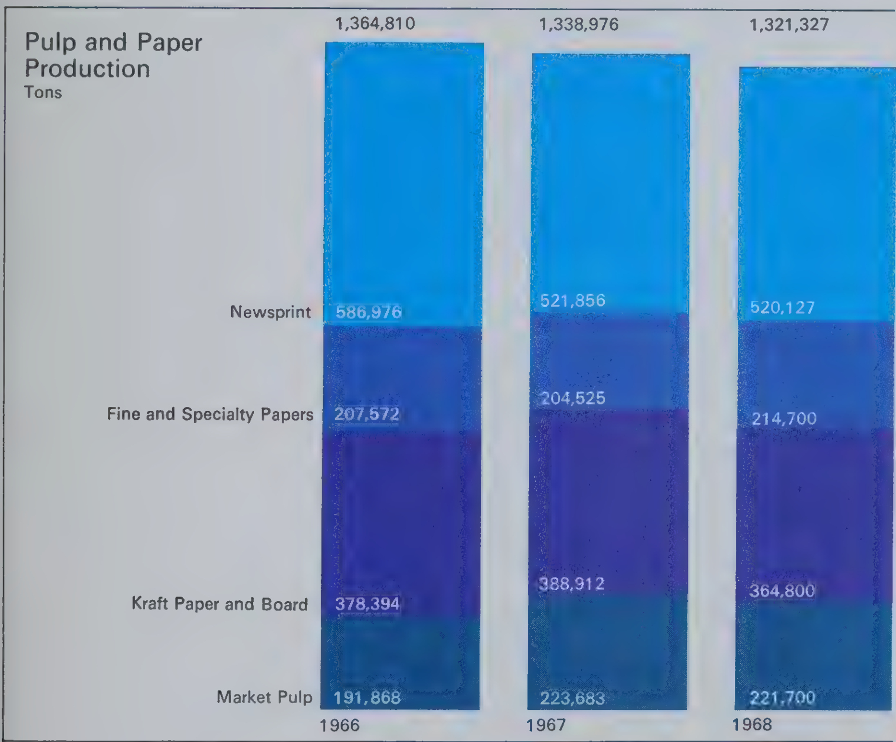
The Red Rock and Trenton mills operated on a 7-day per week basis in 1968. Those at Dolbeau, Trois-Rivières and Donnacona, all in the Province of Quebec, operated on a 6-day per week basis except during the last two months of the year when increased demands for standard newsprint and publication grade coated papers necessitated 7-day operation. This was due, in part, to some pre-ordering in anticipation of the newsprint price increase scheduled for January 1, 1969.

Two-year labour contracts were successfully negotiated at the five newsprint and containerboard mills, the first of which is due to expire on May 1, 1970. In addition, labour agreements were ratified at five of the eight corrugated box plants.

Improvements to the two newsprint machines at Dolbeau were completed in early 1968 and have resulted in increased production and improved product quality. During the year, the Red Rock mill produced a record 180 thousand tons of containerboard and the Dolbeau mill also reached a new high in the production of standard newsprint.

The safety performance of this operating company was again excellent, with statistics showing that the frequency rating is well below the Domtar and national averages.

Diversification into the production of more specialty grades, which would be more compatible with plant equipment, is being pursued



with the view to increased production and the improvement of profit over the long term.

Principal products: Standard and specialty newsprint; coated publication grade and directory papers; linerboard; corrugating medium, sulphite pulps; and corrugated shipping containers.

Domtar Fine Papers Ltd.
Vice-President and General Manager —
J. H. Robertson
This company is the largest and most diversified producer of fine and specialty papers in Canada. Sales in 1968 showed an increase of 7.5% over the comparable figures for 1967. This was accomplished despite increased competition from domestic suppliers and imports from the United States which enjoyed the benefits of the first stage of the Kennedy Round tariff reductions that became effective January 1, 1968.

The Canadian fine paper industry now faces the challenge of the Kennedy Round agreements. Reductions in Canadian tariffs from 22.5% to 20.5% at the beginning of 1968 and to 18.5% on January 1, 1969, on a major portion of imported fine papers will create greater competition from manufacturers in the United States. On the other hand, decreases in American tariffs on most fine papers should offer to Canadian producers market opportunities below the border. Present planning anticipates transitional problems as manufacturing specialization increases and marketing arrangements are made for the sale of Canadian fine papers in the United States.

Until recently a major export market for Domtar fine papers had been the United Kingdom. However, the creation of the European Free Trade Association and the removal of the remaining tariff barriers between the member countries together with very favourable freight rates has given the Scandinavian producers a decided competitive advantage in the United Kingdom. Domtar's fine paper operation in that country continues to show improvement but increases in volume and improved efficiency must be attained before it becomes profitable.

Because of a combination of unfavourable economic factors, particularly the high cost of wood, the sulphite pulp mill and the board machine at St. Catharines, Ontario, were phased out of operation at the end of January 1968. The shut-

down was accomplished in a smooth and efficient manner due to the planning and coordination of effort on the part of the mill management, the employees and the local union executive.

Modest price increases were put into effect on a selected number of grades of fine papers at the end of 1968. A direct relationship now exists between selling prices in the United States and those in Canada on the majority of fine paper grades. Future changes in Canadian fine paper prices will hinge largely upon the price situation in effect in the United States at any given time.

Principal Products: Fine, specialty and coated papers for the printing trade and business, including rag and sulphite bonds and ledgers; lightweight and duplicating papers; book and writing papers; litho, offset and text papers; coated papers and boards; covers, bristols, blanks, railroad board, tags and blotting papers; black line, blueprint, carbonizing and drawing papers; cigarette papers; banknote and safety cheque papers; and construction and poster papers for schools.

Domtar Pulp & Kraft Paper Ltd.
Vice-President and General Manager —
J. P. Lunderville

During the first full year of operation of the pulp mill and chemical plant at Lebel-sur-Quévillon, Québec, there was a continuous improvement in output, quality and production costs. Many components required adjustment, repair and in some cases replacement which kept costs above the normal level but most of the problems that arose were those normally encountered in the early phases of this type of operation.

Due to a world-wide surplus, kraft pulp prices were at unsatisfactory levels. Approximately 183 thousand tons of pulp were shipped from Quévillon during the year, over half of which was exported to twenty countries on six continents, ranging from Scandinavia to South Africa and from Austria to the Philippines.

The Town of Lebel-sur-Quévillon has been transformed from a frontier village to a comfortable community in which the 3300 residents take justifiable pride. During the year, private enterprise provided service industries, a large shopping centre, a modern hotel and apartment houses. The Town has almost 500 privately owned homes. Over 800 students are being educated in the excellently staffed and equipped school. A recreation centre being built by the municipality will provide facilities for curling, bowling and social activities. The development of the Town has helped considerably in reducing the turnover of employees and in recruiting experienced personnel.

During the first six months of 1968 the mills at Windsor and East Angus, Quebec, made considerable improvement in their efficiency of operation. Further progress came to a halt when the unions struck both mills on July 18. The main issue was a union demand that the Company match wage increases granted in many sectors of the paper industry without regard for the economic conditions peculiar to these two mills. The major issues of wages and other contract terms were satisfactorily resolved on December 22. The union then refused to return to work until the Company agreed to the withdrawal of all legal actions initiated during the strike to protect the persons and property of supervisory personnel and to avoid damage to the mills. The Company could not see its way clear to accede to the union's demands. Subsequently, the criminal and

civil charges were processed in court and the men returned to work on January 23, 1969.

The Eastern Canadian kraft paper industry, which includes the mills at East Angus and Windsor, faces a difficult period of adjustment because of downward pressure on prices of many of their products. This results from an increasing interest in the Canadian market by low cost producers in the southern United States. This trend will be encouraged by further tariff reductions resulting from the Kennedy Round negotiations. Efforts are being made to manufacture a more diversified product line in an endeavour to improve our position in Canada and enable us to compete in the United States market.

In 1968, it was decided that more effective results could be obtained by aligning the various converting plants with their sources of raw material. Consequently, this company was given the responsibility for all the operations of the Converted Papers division and the Folding Cartons and Fibre Can departments of Domtar Packaging Limited. The Folding Carton and Fibre Can departments showed considerable improvement in both sales and operating profit during the year. However, the Converted Papers division was unfavourably affected by the strikes at Windsor and East Angus, the normal source of supply of its raw materials, and by competition from low priced products imported from the United States.

Principal products: Bleached and unbleached softwood and hardwood sulphate pulp; semi-bleached softwood sulphate pulp; kraft papers and boxboards for conversion; packaging and wrapping papers for the consumer trades; grocery and other paper bags; towelling and tissue products; folding cartons; and fibre cans and tubes.

Domtar Pulp & Paper Inc.
President — C. M. Fellows,
277 Park Avenue, New York, N.Y.
The efforts of this company are directed to the selling of Domtar newsprint and chemical pulps in the major international markets including the United States, the United Kingdom, Western Europe, Central America, the Caribbean, South America and certain countries in the Pacific, Indian, and Far Eastern areas.

Report on Operations
Domtar Construction Materials Ltd.

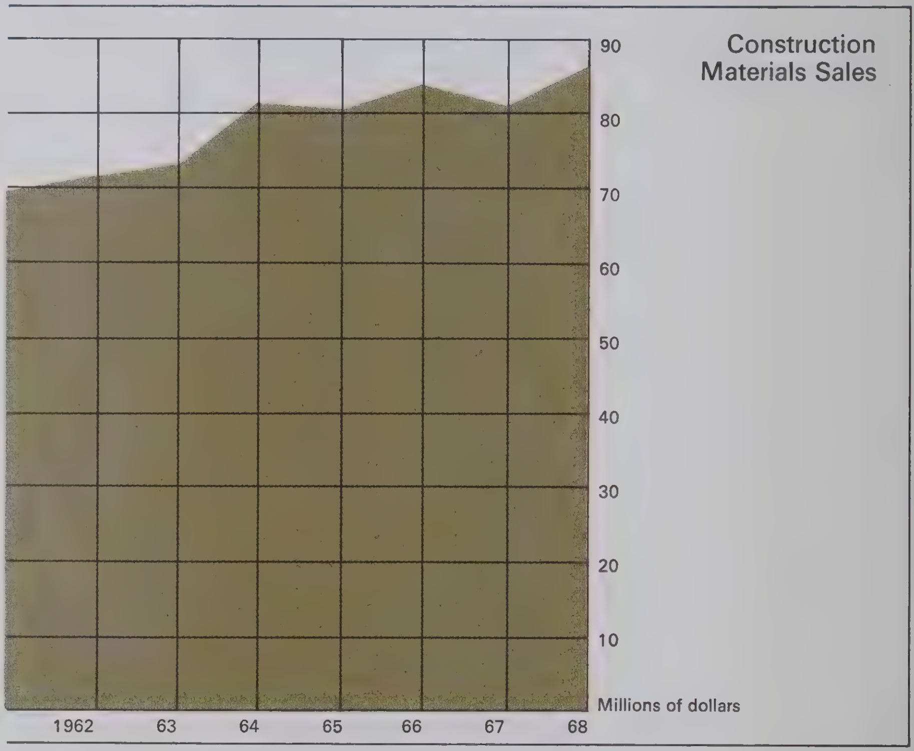
All major product lines recorded gains in sales volume over the prior year with several facilities being overtaxed, particularly in the third quarter. Continued emphasis on profit improvement resulted in costs being kept in line. General expenses were well contained and declined appreciably as a percentage of sales. As a result, operating profit showed an excellent gain over the 1967 results.

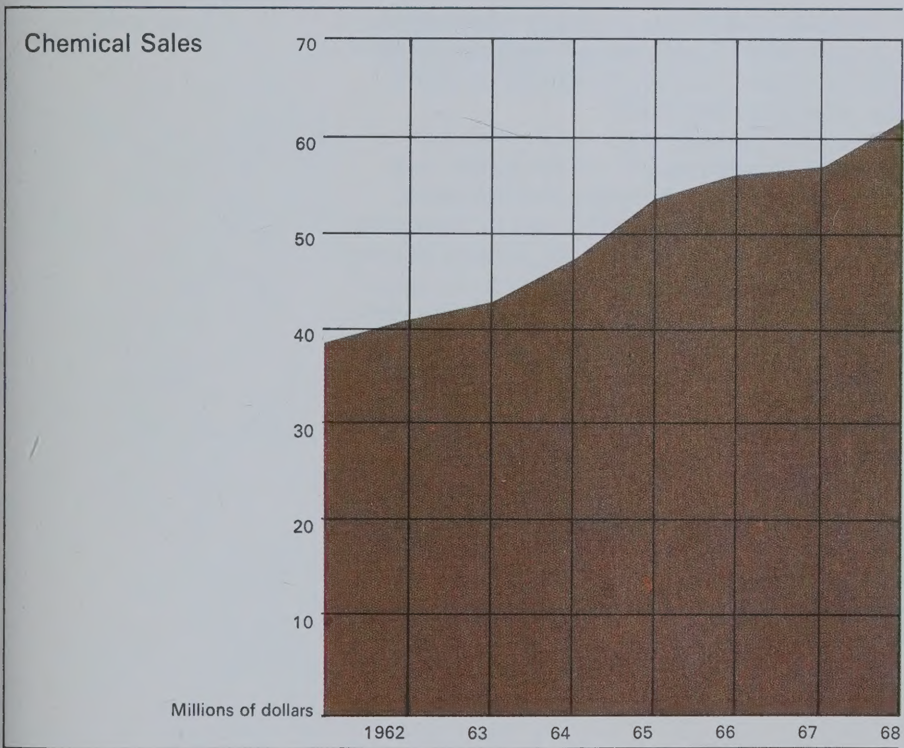
The major unfavourable factors affecting sales and profits were the low market demand for some specialty products, particularly those oriented to the institutional market, and continued depressed pricing on several product lines. Hardboard production at Saskatoon, Saskatchewan, was discontinued during the year as this product has not proven profitable. Increasing emphasis is being placed on the trends in colours and textures for our various products. There is also an increasing degree of concentration on fully finished materials designed to reduce on-site labour and maintenance costs.

While the ratio of prices to freight costs does not normally produce a high export volume, there are some exceptions. "ARBORITE" decorative laminates can be found in homes, schools, hospitals, hotels and plants in over 70 countries. The wide variety of fine wood grains, marbles, patterns and solid colours offered by the Arborite division readily meets the diverse colour and style trends around the world. With the expansion of the United Kingdom plant, the Arborite division's markets were re-arranged between that operation and the Canadian facility. This was a logical move to provide a more concentrated coverage of the many trading areas. The Canadian plant continues to sell in the Caribbean, South America the Far East and Australia. The United Kingdom plant now services the Middle East and Europe. Although competition is extremely keen, "ARBORITE" decorative laminate is widely used where high quality is required. "ARBORITE" decorative laminate was used extensively in the interior of Canadian National's new Turbo train.

Residential construction is expected to continue to advance in 1969 notwithstanding high interest rates which may act as a deterrent to the building of single family units. When considering housing costs, it should be noted that while these have risen some 70% over the past 15 years, average family income has doubled.

Principal products: Brick and structural tile; acoustical plasters; fibre conduit and sewer and drainage pipe; asphalt shingles; roll roofing and siding; roof, sheathing and panel board; ceiling tiles and grid panels; linear ceiling systems; partition systems; gypsum lath, plank and wall board; wall panelling; plastic laminates; lumber products; lightweight cellular concrete products; and lightweight aggregate.





Sales in 1968 were 7% higher than in the previous year and equalled this company's average annual growth over the past five years. Exports from Canada and sales from the company's plants in the United States are accounting for a larger proportion of the business each year. About 13% of the sales volume is now generated in foreign countries. Profits increased by about the same percentage as sales.

The Sifto Salt division improved its performance during 1968 notwithstanding a three-week strike at the Goderich mine. At mid-year a major expansion of the salt plant at Unity, Saskatchewan was announced. A service hoist at the Goderich mine was installed and was in use during the last quarter of 1968. The increase in mine hoisting capacity was supplemented by additional underground mining equipment. An exploratory drilling program to prove salt reserves in the Maritime Provinces is being continued in 1969. New product development resulted in the introduction of trace mineralized salt to the agricultural field. The continuous program to raise packaging standards of consumer salt products is receiving acceptance and helping to broaden distribution.

Volume in the Wood Preserving division was about the same as in 1967. The expected increase in business did not materialize as the railways and the Federal and Provincial governments curtailed demand. Continued emphasis on research and the development of new products and markets is gradually diminishing this division's complete reliance on traditional fields. Excellent progress has been made in improving methods of material handling and assuring the supply of raw materials.

The Lime division benefited from an increased demand from such major consuming industries as steel, pulp and paper and construction. Plant improvements helped to offset higher labour costs. North American markets for quicklime are growing at a greater rate than formerly due to the additional quantities used in the production of steel by the basic oxygen process. Opportunities to serve this market are being actively explored.

Sales in the Tar and Chemical division were up 5% over the 1967 level with electrode pitch to the aluminum industry being the major contributor to the increase. Tar acid sales were restricted by a raw material shortage, a condition which is expected to be remedied in 1969.

Sales of phthalic anhydride were not up to expectations due to low priced imported material which had an adverse effect on volume during the last half of the year. The recently completed expansion of the plant at Sault Ste. Marie, Ontario, and a 25% increase in the Canadian supply of coal tar, the major raw material for this division, will permit expanded marketing activities.

With the new plant at Ridgway, Pennsylvania, on stream early in the year, the Metal Powders division faced the task of increasing its market participation in the United States. This was largely accomplished by year's end with the Ridgway plant servicing customers in the United States and the Canadian plants supplying some markets in that country as well as those in the United Kingdom, Australia, Mexico, Chile, Argentina and Brazil. Existing over-capacity in the North American iron powders industry will be further aggravated with new plants now coming into production. The excellent quality of the division's products, the heavy emphasis on research and the highly trained staff should enable the division to meet this challenge in the field of powder metallurgy.

Chemical Developments of Canada Limited increased its sales volume to the textile, pulp and paper and chemical specialty industries. Several new products widely used in detergents and cosmetics were introduced. Effluent treating facilities were installed at the plant at Longford Mills, Ontario, in order to comply with the anti-pollution requirements of the Ontario Water Resources Commission. This plant achieved a remarkable accident-free record of 2,000 days.

Principal products. "SIFTO" salt; pressure-treated and fire-retardant wood; coal tar pitches and acids; creosote; naphthalene and phthalic anhydride; limestone; hydrated lime and quicklime; iron and iron alloy powders; synthetic detergents; wetting agents; carboxymethylcellulose; and dyestuffs and pigments.

The cover of this Annual Report was lithographed in Canada on Domtar "Glosskote" Cover, coated 1 side, 10 pt., the text pages on Domtar "Carlyle Japan", Plate Finish, Britewhite, 197M.

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Domtar Limited

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